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SUBJECT: CHONGQING LEADER WANG YANG SAYS "THE WORLD IS FLAT," CHINA IS OPEN AND WILL IMPROVE ITS SYSTEM

Classified By: Ambassador Clark T. Randt, Jr. Reasons
1.4 (b/d).

Summary

1. (C) Chongqing Party Secretary Wang Yang, one of China's youngest regional leaders, told the Ambassador that continued good United States-China relations will depend on continued growth in bilateral economic ties. Wang frankly discussed the challenges he faces in Chongqing, but insisted that China will continue to open up and improve its political system, which he acknowledged, "has problems." Chongqing suffers from a lack of talent, but is moving to become a technology and finance hub and looks to compete with India for a share of North America's software design business. Wang described the trouble he goes through in getting central approval for local projects, cited resistance to the Property and Enterprise Income Tax laws (passed by the National People's Congress on March 16), and described protests outside his offices as "understandable" and "necessary." "Taking aggressive measures like chanting slogans can remind the ruling party that it should care about the people," he said. In an aside, Wang mentioned that his son works for Gallup Polling in Washington, DC. End Summary.

2. (C) Dynamic and candid young leader of Chongqing Municipality, Wang Yang, frankly discussed challenges, controversies and shortcomings in the Chinese system with the Ambassador over dinner at the Residence on March 15. Recalling that he had spent time with the Ambassador during Premier Wen Jiabao's visit to the United States in December 2003, Wang was relaxed and confident, frequently turning to his colleagues for responses on specific issues and sprinkling humorous asides throughout his remarks.

Chongqing's Challenge: Three Gorges Dam and More

3. (C) Asked about challenges he faces in Chongqing, Wang quipped that he has "too many." Noting that he had worked on the Three Gorges Dam Development Committee while at the NDRC, Wang said he never imagined that he would be the one who would have to deal with the massive relocation wrought by the filling of the Three Gorges Dam reservoir. Power generation at the dam has come on line and the government anticipates that all generators will be running by 2008, one year earlier than planned. Chongqing has already relocated 1.03 million people, but this is "an issue of world-class difficulty," Wang noted. No other city has ever relocated so many people.

14. (C) There have been no unanticipated environmental effects from the dam, Wang maintained, but he said that the rising water level in the reservoir had brought some surprises. For example, branches of the Yangtze River are also rising and have formed islands cutting off about 20,000 residents from their communities. They must now be relocated, as well. Less money was spent on dam construction than originally planned, but the budget for resettlement was inadequate and now must be further augmented.

15. (C) Other problems are those that are challenges throughout China. Chongqing has considerable poverty and the "contradictions are relatively sharp," he said. Increasing incomes and improving education, medical care and the environment are the top priorities and the issues that people care about the most.

Sustainable Growth Challenge

16. (C) Chongqing is one of six old industrial bases in China, but after it was made a municipality in 1997, authorities encouraged the development of the private sector, Wang stated. Private enterprise now accounts for 53% of Chongqing's GDP and 55% of revenues. Wang noted that Ford's investment in Chang'an Automobiles is producing 150,000 cars a year at considerable profit and expansion by another 200,000 cars per year is planned. Chongqing boasts one-tenth of China's car production and one-fourth of its motorcycle production.

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17. (C) Wang acknowledged that balanced development remains a major challenge. Chongqing is determined to close heavy polluting factories in poor areas, but requires resources for education and retraining. A consensus on the need for such steps has already been achieved, however. Wang's assistant said that coal-fired stoves and furnaces in Chongqing have switched to natural gas and that all taxis in the city run on natural gas. Chongqing suffered the worst drought since 1891 last year, Wang noted, citing water supplies as a source of concern. He welcomed the recent USAID-funded project with Western Kentucky University to research drinking water solutions for karst areas with Southwest University's Karst Research Institute.

Attracting Talent

18. (C) Chongqing's biggest problem is not lack of money, but lack of talent, Wang stated. Chongqing lags behind China's developed coastal areas in this respect, which is why the Central Government has a policy to bring officials from developed coastal areas to lead western provinces. He gave several examples of such transfers, including new Sichuan Provincial Party Secretary Du Qinglin (former Agriculture Minister) and Sichuan's new Governor Jiang Jufeng (from Zhejiang). Asked about his own roots in Anhui Province, Wang acknowledged but rejected the notion that there is now a large group of leading officials from Anhui, claiming that the biggest group of ministerial level officials is from Jiangsu Province (more than 60). The coastal areas are still leading the way, he said. While Wang was friendly and open, his lexicon was more old school Party-speak than his peers. He said he attended the Central Party School when Hu Yaobang was its leader.

The World is Flat

¶9. (C) Executive Vice Mayor Huang Qifan, who Wang noted had come to Chongqing from Shanghai, outlined Chongqing's continuing efforts to attract investment. Huang noted that Party Secretary Wang had had all of Chongqing's cadres read Thomas Friedman's book, "The World is Flat" and joked that the books had sold out in record time. In keeping with the theme of the book, Chongqing is not limiting itself to developing heavy industry, but is looking to develop high tech, financial services and information industries. The city has signed a deal to produce software for the North American market and will provide 10,000 software technicians for the project at half the cost of China's east coast, Huang stated, noting that Chongqing hopes to capture a share of India's software production business. Remarking that Huang takes care of economics while he takes care of politics, Wang said, "from this you can see that there has been positive reform in China's political system."

¶10. (C) Wang commented that U.S.-China relations are good and asserted that ties would remain on an upward trend due to growing economic relations between the two countries. "Our bilateral political relations will be decided by our economic relations," Wang stated. Just as Sino-Japan relations have been put on a more positive track following a realization of the importance of economic links, U.S.-China relations will be improved by ever closer economic ties, he asserted. Ford, Honeywell, Dell, HP and many other American companies have business with Chongqing. Vice Mayor Huang described Chongqing's active efforts to court American financial institutions.

¶11. (C) Referring to Hu Jintao's formulation of a "harmonious world," Wang quoted a popular text message on the subject that he said is making the rounds of Chinese cell phones. "To build a harmonious world, we should keep in mind the following basic areas: never try to struggle against the United States, never struggle with the wife at home, never fight against the leader of your work unit and never struggle against nature and God." Wang said this shows that the Chinese people do not want to take on the United States.

¶12. (C) Wang raised the issue of diversity in discussing his home province of Anhui and posited that diverse cultures are more developed because "tolerance

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promotes new ideas and progress." He lamented that China had isolated itself for much of its history, but said Chinese society is much more open now. For example, Valentine's Day and Christmas have become more important holidays for young Chinese than some traditional Chinese holidays. His first day of work in Chongqing coincided with Christmas Eve when 200,000 people celebrated at the downtown square. China should take care not to allow foreign culture to replace traditional Chinese culture, an issue that some intellectuals have raised. Nevertheless, Wang said he personally is not worried about this, as China has a long history and people will eventually find ways to return to and enrich Chinese culture.

Economic Change and Property Law

¶13. (C) Asked about resistance to passing the Property Law that is currently before the NPC, Wang said the development of China's market economy requires regulation of property or myriad problems will arise. China's economy now includes state,

private, collective, joint and cooperative property which need to be clearly defined and protected. The law will pass, but it will need to be amended in the future as China's economy continues to change, Wang said. Eighty percent of Chinese now own their homes, but questions have arisen over specific rights and land rights of farmers. These questions will need solutions in the future, but for now the important thing is to pass the law and perfect it later. The NPC has been conservative in giving the law seven readings, as opposed to the normal three. While some scholars oppose the law, they are not a significant force. Besides, politicians have the advantage since they can push to pass the law and see how it does in implementation.

¶14. (C) Wang stated that there is opposition to provisions of the Enterprise Tax Law, as well. Many western provinces oppose the provision that requires a company to pay taxes in the location of the companies' legal representative and not in the production location. While many companies have businesses in the West, their head office is in China's coastal areas. This could mean a huge loss of revenue for western provinces. Wang said that his delegation protested to the Minister of Finance, who subsequently gave assurances that any imbalance would be taken care of in adjustments after passage.

¶15. (C) Regarding rule of law development, Wang said China has a long way to go. He noted that his NPC delegation had many complaints in small group discussions of the judicial reports presented during the week. Wang said he felt obliged to come to the courts' and procuracy's defense, telling his deputies that China does not have a long legal tradition and improvement will take time.

Woes of Local Leaders

¶16. (C) Executive Vice Mayor Huang Qifan excused himself early from dinner, noting that he had to go meet a "ministry official." Wang then lamented that the NPC session was extremely busy for him and his colleagues. Aside from the unprecedented number of invitations he had gotten from foreign Embassies this year (he only accepted the United States and German invites, and sent his mayor to the British, French, Japanese, Australian and Philippine Embassies), he said he and his colleagues spent many hours in meetings with ministry officials. It is helpful for us to meet them during the two meetings, because their attitude is more helpful when the legislature is in session, Wang said. "These are hard nuts to crack," Wang joked.

¶17. (C) Elaborating on Chongqing's agenda with the ministries, Wang said the Chongqing is mainly seeking approvals for construction projects. Following the imposition of the Center's macroeconomic controls, localities now have to seek approval of new construction projects from a series of central ministries including the NDRC, State Environmental Protection Agency and the Ministry of Land and Natural Resources. As a former NDRC Vice Minister, Wang said he understands the Center's need to prevent the economy from overheating, but as a local leader, I

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know that some projects are necessary to provide jobs and fiscal revenue. Some departments have their preferred candidates for project approval, Wang said, so this is a big headache. He wryly noted the irony of his previous position as NDRC Vice Minister when he frequently denied local officials project funding.

¶18. (C) Asked by the Ambassador how he gets information about people's dissatisfaction, Wang said that, as opposed to U.S. political parties, the Party has a system of direct administration and can easily hear the complaints from the grass roots. For example, Chongqing will hold its Party Congress in May when Party Secretary Wang will have to make a report. He is currently in the process of soliciting opinions from all quarters, including people at the bottom of society, about what the report should address. He hears opinions and suggestions through the local People's Congress and People's Political Consultative Conference mechanisms, invites Democratic Party representatives to dinner and relies on petitions, which some of his staff pass to him.

¶19. (C) Another important channel is when some people bring their grievances directly to his office and chant slogans outside, Wang said. This kind of aggressive approach is an option for common people and the phenomenon will continue to exist for quite some time, he assessed. This is probably a good thing to remind the ruling Party that they should care about the people. It is understandable for people to take these measures, as the political system "has its problems and needs improvement." China will need this motivation to adjust its system, since it doesn't have a U.S.-style Congress that will discuss everything. In response to a question, Wang said his son works at Gallup in Washington, DC. He said that he himself doesn't use formal polling to collect opinions, although he does seek out opportunities for frank discussion with locals.

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